3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

schillings, half of each account was to be blocked for six months, and a quarter for a further three months.

Some attempt was made to distribute the burden in accordance with capacity to pay. Those in need were allowed to retain limited amounts from their blocked accounts up to a maximum of 3,500 schillings, and under this provision payments amounting to about 500 million schillings were in fact made in monthly instalments to 300,000 people. A capital levy was also announced, for which the necessary legislation was passed the following July. It imposed graduated taxes on capital and capital increment which were to be spread over a number of years.

The essence of successful currency legislation is that it should be introduced unexpectedly and implemented immediately, so that no one should have time to take evasive action. Such procedure was not possible in Austria in 1947 owing to the provision of the Allied Control Agreement which laid down that laws went into effect, if not vetoed, thirty-one days after they had been submitted to the Allied Council. Nevertheless, the Austrian Government might have handled the situation with greater skill. In the end, it secured Soviet approval of the Defence Protection Law at the heavy price of accepting the Russians' terms for the settlement of their 1945 'loan'. With Allied consent the law then went into effect ten days ahead of the normal time. It would have been worth paying an even heavier price to obtain Russian approval in advance, so that the three weeks' delay between the publication and execution of the law could have been avoided.

As it was, the situation during the three weeks' interval was grotesque, and the effectiveness of the law itself was seriously diminished. Evasive action was carried out on the widest scale, the most quick-witted and unscrupulous coming off best. Nobody was anxious to sell anything for money that was about to be devalued, and, in spite of Government regulations to the contrary, many shops could not be persuaded to remain open. People revealed a sudden enthusiasm for paying debts, and creditors could hardly refuse payment in a currency in

originally anticipated, due to the prolonged interval between the publication and the enforcement of the law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

In the meantime the occupation powers, particularly the American and the British elements, had introduced relief measures ameliorating need and want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 26, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNRRA aid which was ending. For this Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

Of particular importance was the establishment of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later (July 1948) the expenditures of the occupation costs were met fiscally by an additional tax (occupation cost tax) to the income and wage tax.

1.) Most of the enterprises nationalized under the terms of the first nationalization law represent "German Property," the definite settlement of which is left to the signing of a state-treaty; 471 655

2.) The "German Property" located in the American zone of Austria has been transfered in trust, whereby, in accordance with the terms of the trust agreement, no changes of proprietor status are permitted without prior consent of the United States occupation element;

3.) There is a binding contract of the federal government to enforce the nationalization laws covering enterprises belonging wholly or partly to citizens of the United Nations after settlement of compensation claims.

A decision about compensations also had to be left pending. Despite the written undertaking of the Austrian federal government to compensate the prior proprietors, it has not as yet been possible to fix such compensations for the following reasons:

1.) The three aforesaid reasons prevent, for the time being, a settlement of this question;

2.) The definition of the conception "German Property," as yet not clear, does not permit the definite fixing of the scope and the amount of such compensations;

3.) In consideration of the prevailing uncertainties of the nation, the date under which a calculation of the values of the confiscated enterprises has to be effected is still open and likewise the compensation form;

4.) Legal prerequisites, especially with regard to enterprises partly administered by an occupation element and partly by an Austrian authority, have not as yet been established.

The nationalized enterprises are continuing business under their former legal status, i.e., as corporation and limited companies and under the same regulations covering enterprises of the private sector. Thus, for instance, the nationalized industrial enterprises are not accomodated with special credit terms for reconstruction purposes by the large nationalized banking institutions. They are subjected to the same controls and regulations as enterprises of the private sector, enjoying no privileges with regard to taxations, etc. They are exempted only from the payment of the property-tax. With regard to competition, they are further required to adhere to the same principles and 475 471 [65]

schillings in the same period. Of the occupation costs the Soviet occupation force absorbs more than half of the total amount. Up to the fall of 1950 Soviet Russia received from current Austrian production about 1,094 million dollars as occupation costs and confiscation of Austrian properties abroad. (Help from the Western powers, especially the USA, has amounted to about 986 million dollars since 1945.)

Of the profit-making state-owned enterprises, which produced a surplus before the war, now only those which actually constitute a state monopoly (salt, spirits) produce a surplus, while other state enterprises, the "Bundesbetriebe" (such as postal service and theaters) and the Federal Railways have a deficit. The deficits, however, are being decreased since 1946 by means of higher tariffs, dismissal of personnel and progressive rationalization (investments), from 17.7 per cent of expenditures in 1946 to 6.5 per cent in the budget estimate of 1950.

Out of the total revenue (based on the principle of net income) 80 to 85 per cent came from taxes levied since the end of the war. If one includes the income from various revenues similar to taxes (such as contributions to unemployment insurance, fees to child-welfare, etc.) the amount of taxes increases from 90 to 95 per cent, the remainder consisting of fees, interest and contributions from corporations and the income of the Postal Savings Bank (Postsparkasse).

The main support of the whole tax system since the end of the war is formed by direct taxes. Their part in the total tax income, in the years 1946-50, ranged between 44 per cent and 53 per cent as compared to 29 per cent in 1937; accordingly indirect taxes decreased in importance as compared to the prewar period. The income from the turnover-tax and from customs duties decreased from 42 per cent in 1937 to 24 per cent in 1950 as a consequence of structural changes in the system of taxation since 1938.

The Austrian treasury endeavors, in accordance with the bilateral agreement of July 2, 1948, to keep up the balance of the state budget and of the budgets of the federal countries (Länder) and municipalities, in spite of the enormous demands on public funds.

The main economic aim of the financial policy is to secure the highest possible employment and to continue the extension of all investments pertaining to economic productivity.

435 656 [651] 3. The tariffs of the public corporations (Federal Railway, Posts, Tramways) as well as the prices for current were increased from 20 per cent to 100 per cent to keep pace with the prices on the world market which had increased due to increases in cost (especially the price of coal); the trend toward a deficit in the Federal Railway and public service enterprises had to be checked. In spite of these considerable increases, these price rises were only three to five times as high as the level of 1937.

[1465] 4. On the basis of the newly calculated producer and import tax prices, new retailer prices were worked out; to balance this rise every receiver of gross wages received an additional income of from 10 per cent to 12 per cent per month, but at least a minimum of 140 schillings. For persons in the public service, special measures were taken on the ground of the so-called "Gehaltsüberleitungsgesetz."

[651] 5. Finally, in immediate connection with this agreement a number of taxes and duties were altered: progression of the taxes on wages and incomes; a change in the rates of the mineral tax; a change in the contributions of the employers to the balance funds for charitable relief; a change in the turnover-tax; on the grounds of the law of adjustment of social insurance of 1951, the basis of the maximum contributions to social security were changes.[2]

[648] [654] The most remarkable progress within the scope of this agreement, however, was (as already mentioned) the reduction of subsidies. As is known, the individual ERP countries obligated themselves in the bilateral economic agreements (Austrian agreement, August 2, 1948) toward the USA to pay the full value of the American relief deliveries in the currency of the recipient country on a special account (counterpart accounts). These accounts should be disposed of by the individual governments in accordance with the approval of the ECA to cover, as a rule, the financing of productive investments and to support currencies. The utilization of these means for financing for consumer goods should be limited as far as possible, although this had been tolerated in the beginning to raise the general standard of living. The purpose of this limitation was not to prolong the dependence upon foreign aid which was to end toward the end of June 1952.

457 652 With regard to the necessary balancing of the balance of payments (the special measures to achieve

[1] [i.e., in July, 1951. Cf. cat. 116, p. 98-97, for rationale--Analyst]
[2] [sic.,--Analyst]

PROVISIONAL REVENUES OF PUBLIC TAXATION IN 1951

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Federal Finance Law "Public Taxes" 1951, Chapter 17	Provisional Revenues 1951	Federal Budget 1951 (including supplements)	Difference (including supplements)
	(In Thousands of Schillings)		
Direct Taxes:			
Assessed Income Taxes	1,804,126	1,800,000	↑ 4,126
Wage Taxes	1,637,415	1,433,000	↑204,415[a]
Corporation Taxes	599,489	532,000	↑ 67,489[b]
Property Taxes	66,231	53,600	↑ 12,631
Business Licenses	1,000,832	886,000	↑114,832[c]
Occupation-cost Contributions	515,043	448,086	↑ 66,957[a]
Other Direct Taxes	20,857	17,700	↑ 3,157
Total of Direct Taxes	5,643,993	5,170,386	↑473,607
Turnover-Tax	2,303,551	2,214,000	↑ 89,551[d]
Added Charge to Turnover-Tax	1,152,596	1,107,000	↑ 45,596[d]
Customs Duties	305,013	300,000	↑ 5,013
Consumer Taxes:			
Tobacco Tax	1,069,513	1,050,000	↑ 19,513
Other Consumer Taxes	504,721	490,760	↑ 13,961
Total Consumer Taxes	1,574,234	1,540,760	↑ 33,474
Duties and Traffic Taxes	886,115	844,400	↑ 41,715
Extra Fees, Fines and Damages	67,098	64,000	↑ 3,098
TOTAL INCOME	11,932,600	11,240,546	↑692,054
Deductions:			
Transfers to Federal Countries and Municipalities	3,563,849	3,492,393	- 71,456[e]
Remaining Net Income	8,368,751	7,748,153	↑620,598[e]
Contributions to the Reconstructions of Dwellings out of the Revenues	383,250	f)	f)
Contributions under the Law of Reconstruction of Dwellings	39,363		

a) A surplus caused by the higher employment and by wage increases under the fifth Wage and Price Agreement. b) Surplus based on carry-over from the preceding year. c) A surplus from back-payments on 1950 assessments. d) Higher turnover. e) In addition, the federal countries will get about 270 million schillings. f) Not assessed in the federal provisional budget, since these amounts flow directly into reconstruction funds for dwellings.

SOURCE: Mitteilungen des Direktoriums der österreichischen Nationalbank, January, 1952.

*The surplus serves to finance investment expenditures of about 560 million schillings which is not provided for in the Federal Finance Law of 1951 and which are not covered by ECA releases; they also are to cover surplus expenditures of the Federal Railways caused by price increases.

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of 8 warehouses, 258 tobacco distributors and 15,253 tobacconists' shops, thus providing a large number of Austrians with a secure livelihood. As the Tabakregie is a valued customer in the tobacco-producing countries compensation transactions are made possible for other home industries through its foreign dealings. Even during the first months of reconstruction (April to December, 1945) the Tabakregie contributed in taxes about 10 per cent of the total state revenues. In 1946 it provided about a third of these revenues (corporation taxes about 30 per cent and customs dues over 40 per cent), despite decreased production. A rise in output will certainly mean a considerable increase in these figures. It must also be mentioned that Tabakregie exports brought in over 55 million schillings in the year 1933, and that they should therefore play an important rôle in stabilising finances as soon as foreign markets are reopened.

The staff of the Tabakregie varies according to available supplies of raw materials and depends on the preferences and satisfaction of the smoker. In the year 1937, the concern employed 5421 workers, including 3912 women, and at the end of 1947, 2930 workers, of whom 1581 were women. The dwindling of the number of workers is only in a minor degree due to the effects of the war. The main reason must be sought for in the decrease in cigar consumption which has been in progress for some time. The smoker of today is turning more and more to the cheaper type of cigarette which is quickly consumed. The cigar is one of the victims of our hustling and mechanical age. Cigar production, which depends mostly on manual labour, is on the decline, while the cigarette, which is produced entirely by machinery, is becoming more popular. This explains the reduced number of employees. It may increase one day again, if people find time in more leisured days to blow heavy smoke rings from fat cigars.

At all events, the Austrian Tobacco Monopoly is doing its best to see that the smoker is well supplied at all times with his needs, which are those of so large a section of the community.

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9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

trative staff of a 50 million empire—and a very bureaucratic empire at that—but this staff had been considerably swollen in war time and was further enlarged by the absorption of all those Austrian officials who after the war returned from their posts in the "Succession States". To reduce this number of officials was one of the problems of readjustment which Austria had to solve; and in fact a drastic reduction was carried out later. But little was done in the first post-war period and salaries—inadequate as they were with the increasing depreciation of the Crown—were a heavy drag on the Exchequer. In other lines, too, expenditure continued to run in an unplanned and uncoordinated manner. This was perhaps an effect as much as a cause of the inflation; but it was also symptomatic of the Government's fatalism; for they considered all this as the natural expression of Austria's doom.

The Government's weakness also showed itself on the revenue side. Expenditure, however carefully planned, is bound to be high in any post-war period. The social and economic upheavals of modern wars call for a high degree of State control and interference so as to facilitate an orderly return to a peace-time economy. But if inflation is to be avoided this high level of expenditure must be matched by an equally high level of revenue—at any rate under conditions of more or less full employment. This, however, the governments completely failed to achieve. The years 1919 to 1922 were years of continuous budget deficits, as is shown by the table on page 24.

The failure of revenue to come anywhere near expenditure was due to a number of reasons. First, the rapid depreciation of the crown implied that every time lag between assessment and payment caused a reduction in the real value of the tax. This opened the way to tax evasion on a grand scale; for even the incidence of stiffer nominal rates

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

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Budgets	Receipts	Expenditure (Mill. of Crowns)	Deficit	Deficit in per cent of Expenditure
Jan. 1– June 30, 1919	1,339	4,034	2,704	67
July 1, 1919– June 30, 1920	6,295	16,873	10,579	63
July 1, 1920– June 30, 1921	29,483	70,601	41,117	58
July 1– Dec. 31, 1921	24,075	49,496	25,421	51
Jan. 1– Dec. 31, 1922	209,763	347,533	137,770	40

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of taxation could be avoided by simply delaying payment for a little while. It was not until much later that the Government introduced "tax units" of a stable value to put a stop to this. Secondly, stronger measures, such as a capital levy and a compulsory loan, which were intended to bring some relief in this extraordinary emergency, were greatly watered down through endless delay and the strong pressure from vested interest. By the time they were finally introduced they were in fact quite ineffective. Thirdly, the Government was slow in adjusting the prices of State-owned enterprises to the rapidly rising price level, and considerable losses were incurred as a result.

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Expenditure thus rose with rising prices while receipts lagged behind. The gap had to be filled. A loan was out of the question for nobody was willing to lend money which would probably be worthless by the time of repayment. So the printing press, which had proved a convenient servant in war-time, had to continue its work. More and more notes were printed, prices went up and with it the State's expenditure and deficit. The vicious spiral was set in motion.

The following table indicates the course of the inflation.